

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF GREATER GIYANI MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of Greater Giyani Local Municipality which comprise the statement of financial position as at 30 June 2009, the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget

reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Greater Giyani Local Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for qualified opinion

Revenue

8. In my previous audit report dated 30 November 2008, I was unable to confirm that all income on account of rendering of services was correctly included in the amount disclosed- R 4,842,654 in note 13 to the financial statements. This has not been adequately resolved in the current year, and I am unable to determine the impact, if any, on the prior year's accumulated surplus.

Trade and other receivables

9. Trade and other receivables as disclosed in note 5 to the financial statements exclude amounts due on the sale of land. The municipality has accounted only for the amounts collected during the year as revenue from sale of land. The municipality's records did not permit the application of alternate audit procedures and consequently, the impact on trade and other receivables, and corresponding effect on sale of land and accumulated surplus cannot be ascertained.

Inventory

10. The municipality did not implement an adequate inventory recording system for the year under review. No alternate audit procedures were possible, and consequently I could not determine whether inventories amounting to R 442,920 (R 1,032,285 for the prior year) disclosed in note 4 to the financial statements were correctly stated.

Trade and other payables

11. Trade and other payables as disclosed in note 12 to the financial statements include accrued leave pay amounting to R 3,102,563 for which the leave records were not accurately maintained. The municipality's records did not permit the application of alternate audit procedures and consequently I could not determine whether the valuation of this accrual is correct. The corresponding effect on employee related costs could also not be determined.

Qualified opinion

12. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Greater Giyani Local Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the basis of accounting determined by National Treasury, as set out in accounting policy note 1 and in the manner required by the MFMA.

Emphasis of matters

I draw attention to the following matters on which I do not express a qualified opinion:

Amendments to the applicable basis of accounting

13. As set out in the accounting policy note 1 the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *General Notice 552 of 2007*, issued in *Government Gazette 30013 of 29 June 2007*.

Unauthorised Expenditure

14. As disclosed in note 28 to the financial statements, unauthorized expenditure to the amount of R 8,898,871 was incurred as operating costs in excess of the budgeted amount.

Irregular Expenditure

15. As disclosed in note 30 to the financial statements, irregular expenditure to the amount of R 19,211,567 was incurred as procurement was not made in terms of the supply chain management policy.

Fruitless and wasteful expenditure

16. As disclosed in note 29 to the financial statements, fruitless and wasteful expenditure to the amount of R 101,902 was incurred as penalty on late payment to SARS.

Restatement of corresponding figures

17. As disclosed in note 9 to the financial statements, the corresponding figures for 30 June 2008 have been restated as a result of errors discovered during 2008-2009 in the financial statements of Greater Giyani Municipality at, and for the year ended 30 June 2008.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Other information included in the annual report

18. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Non-compliance with applicable legislation

Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

19. The municipality did not comply with *Section 114 of the MFMA* which requires the accounting officer to notify the Auditor-General, National Treasury, and Provincial Treasury the reasons for approval of tenders not recommended as per the supply chain management policy.
20. The municipality has not provided supplementary information on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with *GRAP 1- Presentation of Financial Statements*. This is non compliance with *section 122(3) of the MFMA*

Governance framework

21. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the

accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

22. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control. The number listed per component can be followed with the legend below the table. In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
8	Revenue		2			
9	Trade and other receivables				1	
10	Inventory		2			
11	Trade and other payables			5		

23. The qualification of my opinion is due to the fact that the municipality is not adequately staffed to ensure compliance with the requirements of the applicable basis of accounting. Further, the internal audit function is not adequate for the size of the organisation and complexity of the regulatory and accounting framework. Furthermore, budgetary constraints don't allow the municipality to incur additional training cost.

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an	7

effective reward system.	
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

24. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		✓
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		✓
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	✓	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	✓	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	✓	
7.	Internal audit		
	• The municipality had an internal audit function in operation throughout the financial year.	✓	
	• The internal audit function operates in terms of an approved internal audit plan.		✓
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		✓
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		✓
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		✓
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in 62(c)(i) of the MFMA.		✓
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	✓	

Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	✓	
Issues relating to the reporting of performance information			
14.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		✓
15.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		✓
16.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Greater Giyani Local Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 / 87 of the MFMA.	✓	
17.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

25. The municipality is not adequately staffed to ensure compliance with the requirements of the applicable basis of accounting. Further, the internal audit function is not adequate for the size of the organisation and complexity of the regulatory and accounting framework. Furthermore, budgetary constraints don't allow the municipality to incur additional training cost.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on performance information

26. I have reviewed the performance information as set out in pages xx to xx.

The accounting officer's responsibility for the performance information

27. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

28. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

29. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgment.

30. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Existence and functioning of a performance audit committee

31. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2) of the Municipal Planning and Performance Management Regulations, 2001.

Internal audit of performance measurements

32. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal audit processes, as required in terms of section 45 of the Municipal Structures Act.

No mid-year budget and performance assessments

33. The accounting officer of the municipality did not (by 25 January of each year) assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Usefulness and reliability of reported performance information

34. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its integrated development plan:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Reported performance information not reliable

Lack of source documentation

35. Sufficient appropriate audit evidence in relation to the following reported performance indicators were not made available for the audit-
- Road programme- % of road infrastructure requiring upgrade
 - Road programme - no. of reported potholes repaired within 5 days
 - Road programme- no. of meter road markings per quarter
 - Fleet management programme- % decrease in breakdown of fleet vehicles per month
 - Fleet management programme - % compliance to vehicle service plan
 - Water maintenance programme - % reduction in water pipe burst and leaks
 - Water maintenance programme - % pipe burst and leaks attended to within 24 hours
 - Water maintenance programme - % boreholes maintained
 - Housing programme- % Building plans approved within 3 weeks

Source information not accurate and complete

36. The evidence provided to support the reported performance information with regard to the water maintenance programme did not adequately support the accuracy and completeness of the facts for the following-
- % reduction in water pipe burst and leaks- The municipality reported a reduction of 10% though the supporting documents suggest that this was not achieved.

Inconsistently reported performance information

37. The municipality has reported on targets inconsistently from those that were approved in the service delivery budget implementation plan for the following objectives-
- Improve access to sustainable and affordable services
 - Create community beneficiation and empowerment of opportunities through networking for increased employment and poverty alleviation.

APPRECIATION

38. The assistance rendered by the staff of the Greater Giyani Local Municipality during the audit is sincerely appreciated.

Auditor - General

Polokwane

Date: 19 April 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence